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CCC-320-1
(Proposal 1)

U.S. DEPARTMENT OF AGRICULTURE
Commodity Credit Corporation
Risk Management Agency

BROKER AGREEMENT OF THE DAIRY OPTIONS PILOT PROGRAM

NOTE: The following statement is made in accordance with the Privacy Act of 1974 (5 USC 552a) and the Paperwork Reduction Act of 1995, as amended. The authority for requesting the following information is the Federal Agricultural Improvement and Reform Act of 1996 (Pub. L. 104-127). The information will be used to evaluate the effectiveness of the program and to verify compliance with program procedures. Furnishing the requested information is mandatory. Failure to furnish the requested information will result in termination of this contract and ineligibility for the program. This information may be provided to other agencies, IRS, Department of Justice, or other State and Federal Law enforcement agencies, and in response to a court magistrate or administrative tribunal. The provisions of criminal and civil fraud statutes, including 18 USC 286, 287, 371, 641, 651, 1001; 15 USC 714m; and 31 USC 3729, may be applicable to the information provided.

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The terms and conditions for the DOPP (Dairy Options Pilot Program) broker agreement are as follows:

1 DEFINITIONS

A **Abandonment.** The surrender of the right possessed by an option buyer, an alternative open to an option buyer whose option is to expire worthless.

B **Application.** Form CCC-320 that is required to be completed and signed by the producer before the producer is eligible to participate in this program.

C **Basic formula price (BFP).** The price established by USDA, and provided to the USDA marketing order administrators to be used to set regional minimum prices.

D **Broker.** A broker or brokerage firm registered under the Commodities Exchange Act that has entered into an agreement with RMA to participate in the program.

E **Contract Month.** A month designated in an eligible market for which futures and options contracts are quoted for trading.

F **CME.** Chicago Mercantile Exchange.

G **CSCE.** Coffee, Sugar, and Cocoa Exchange (now known as the NYBOT).

H **DOPP.** Dairy Options Pilot Program.

I **Eligible markets.** Commodity futures and options markets designated as contract markets under the Commodity Exchange Act (7 U.S.C. 1 et seq.).

J **Exercise**. The action taken by the holders of a put option on a futures contract if they wish to sell the underlying futures contract.

K **Expiration date.** The last date on which a put option may be exercised or sold.

L **Futures contract.** A standardized contract to make or take future delivery of a commodity traded on an eligible market at some point in the future.

M **Hedge.** To take compensatory measures to counter a possible loss.

N **NYBOT.** The New York Board of Trade (formerly known as the CSCE).

O **Open outcry**. Method of public auction required to make bids and offers in the trading pits, or rings, of commodity exchanges.

P **Out-of-the-money.** Put option with a strike price that is less than the underlying futures contract price

Q **Premium.** The value, of a put option determined by open outcry. The premium does not include related brokerage commission fees.

R **Producer.** An individual, entity, or joint operation, which as owner, landlord, tenant, or sharecropper, is entitled to share in the production available for marketing from the dairy farm, or share in the proceeds thereof.

S **Program.** The Dairy Options Pilot Program.

T **Put option.** A contract traded on eligible markets that gives the buyer the right, but not the obligation to sell the underlying futures contract at the strike price on or before an established expiration date.

U **RMA.** Risk Management Agency, an agency of the United States Department of Agriculture.

V **Round turn.** The broker's service in transacting a single put option consisting of consultation services and the purchase and liquidation (sale or exercise, or abandonment) of a put option.

W **Sale.** An alternative available to the purchaser of an option by which the option is liquidated through an offer in an eligible market.

X **Secretary.** The Secretary of Agriculture.

Y **Settlement price.** The price established at the end of each days trading of a specific put option, as published by the exchange on which that contract trades.

Z **Strike Price.** The price at which the holder of a put option has the right, but not the obligation, to sell the underlying futures contract.

AA **USDA.** The United States Department of Agriculture

2 ELIGIBILITY

To be eligible to execute options orders on behalf of DOPP participants under this agreement a broker must:

A Be properly licensed and in good standing with the National Futures Association;

B Not be suspended or debarred by any U.S. Government Agency;

C Attend at least one DOPP training session;

D Have the following hardware and software and service in order to operate the DOPP communications software: Internet Service Provider; Internet E-mail address; a Windows 95 PC; Internet Browser, either Microsoft Internet Explorer or Netscape; minimum 28.8 modem; minimum 8 meg RAM (16 meg recommended); and

E Execute this agreement and comply with all its terms and conditions.

3 RESPONSIBILITIES

A Brokers who elect to participate in the program agree to enforce the following program requirements with respect to any DOPP participant who elects to purchase options and who uses broker's services:

(1) To buy put options on a minimum of 100,000 pounds of milk on an eligible market, through an eligible broker, within 4 months after the date the producer attends the required training session, unless market conditions fail to provide an opportunity to establish price protection above production costs;

(2) To purchase options on no more than 200,000 pounds of milk for any one contract month;

(3) To purchase put options on no more than the producer's total production over the consecutive 6-month period used to establish the producer's eligibility. (For example, if a producer has provided copies of marketing receipts for 245,000 pounds of total milk production for a consecutive 6 month period to meet the eligibility criteria of the program, only 200,000 can be hedged under the program because there are no contracts equal to or less than 45,000 pounds currently available on a eligible market);

(4) To purchase only those put options that expire at least two months after the purchase date. (For example, assume the producer wants to hedge September 1999 production with BFP put options. The last date on which the producer shall be able to purchase a September put option under the program would be Tuesday, August 3, because September options expire exactly two months later on October 4. On August 4, the producer could purchase only October or more distant options);

(5) To purchase only those put options with a strike price that is at least 10 cents our of the money;

(6) That no put options will be sold or exercised before one month prior to the expiration date. (For example, assume the producer owns September, 1999 put options which expire on October 4, 1999. The producer would not be allowed to sell or exercise September options under the program prior to September 6); and

(7) To purchase only those put options with contract months less that 12 months from the month of training (For example, assume a producer is trained on June 7, 1999. The most distant options contract the producer is permitted to buy is the May 2000 contract).

B The broker must keep detailed records on each transaction and transmit all information to RMA electronically. RMA will provide communications software for this purpose to the broker. Records required include:

(1) The purchase date, time, and premium, strike price, contract type, and exchange for each put option;

(2) The expiration date and contract month for each put option;

(3) Whether the options are sold, exercised, or abandoned and, the date, time, and price of the futures contract transaction in the event of exercise.

C Brokers certify that systems used to transmit data will be year 2000 compliant, i.e., be able to process accurately date and time data (including, but not limited to, calculating, comparing, and sequencing) from, into, and between the years 1999 and 2000 and leap year calculations, and to properly exchange date and time data with other information technology. Data transmission requirements and year 2000 compliance guidelines are available upon request.

D The broker cannot permit a producer to purchase a DOPP option until RMA has electronically notified the broker that the producer has been accepted into the program, the amount of milk for which the producer has provided production records, and the date on which the producer fulfilled the training requirements.

E If a broker participating in the program through this agreement is not in compliance with the provisions of this agreement, the broker will be required to repay any broker fees and premiums paid by RMA on options contracts traded by the broker under the program.

4 COSTS

A Up to $30 per round turn in broker fees will be paid by RMA for each put option purchased on behalf of the producer. Any transactions costs agreed upon between the broker and a producer in excess of $30 will be the sole responsibility of the producer and not of RMA.

B The broker will charge the producer's account for 20 percent of the premium of each put option purchased. This 20 percent of the put option premium is the sole responsibility of the producer and not of RMA.

C The broker will bill transaction costs not to exceed $30 and the balance of the put option premium, 80 percent, to RMA. RMA will pay these amounts via the automated clearing house (ACH) payments process within three banking days after RMA's acceptance of the transaction. Transactions will be considered accepted after RMA systems verify that the broker and participant have been selected for participation in the program, and that the transaction does not violate the trading limitations of the program itemized in Section 3 above.

D The producer is solely responsible for any broker commissions or other costs associated with futures contracts when put options are exercised.

5 PROGRAM CHANGES

A The broker acknowledges that, due to the pilot nature of this program, on-going modifications may be necessary. The broker agrees to abide by reasonable changes in the program by RMA.

B Because of likely implementation of the Federal Milk Marketing Order reform, the NYBOT or the CME could replace existing BFP options contracts with options derived from other milk price indexes. DOPP will permit trading of put options contracts on a milk price index which might replace the BFP under a new Federal Milk Marketing Order.

Signed in Washington, D.C., on ___________________________.

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Director, Risk Management Education	Broker's Signature
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	Please Print Name
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	Brokerage Firm
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	Address, Telephone & Fax Numbers
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	Email Address (required)
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